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INTRODUCTION

In accordance with the City Council's October 1991 Referral #10-22-91-7e (8), the City Auditor's Office is conducting a risk assessment of the Office of Environmental Management (OEM). This report describes the status of our risk assessment work. We are conducting this assessment in accordance with generally accepted government auditing standards, and we have limited our work to those areas specified in the Scope and Methodology section of this report.

BACKGROUND

This report is a preliminary assessment of the OEM's internal control structure. This assessment is part of the Risk and Threats Analysis OEM requested in a memorandum dated October 1, 1991, which was presented to the Finance and Environment Committees. OEM expressed in the memorandum *"Though time-consuming and likely to displace other efforts, this audit would be particularly timely and would serve to identify both administrative and management priorities for the next year, as well as subsequent audit issues."* The City Council action taken on this memorandum on October 22, 1991, was *". . . direction to the Auditor to modify workplan and immediately begin a "Risks and Threats Analysis" based on the Office of Environmental Management's new organizational structure."* (See Appendix B for the memorandum).

In order to further clarify the City Council's direction, the City Auditor and Acting Director of OEM prepared a memorandum, dated October 22, 1991, to the Finance Committee Chair and the City Manager. The agreed upon steps contained in the memorandum are as follows:

- The City Auditor would perform an assessment of inherent risks and threats associated with all of OEM's programs, operations, and activities.

- The City Auditor would provide OEM with a list of threats for review, comment, and correction.

- OEM would promptly review the list of threats and provide the City Auditor with a listing of any administrative, procedural, or accounting

controls in place to either prevent the identified threats from occurring or to mitigate the consequences of the identified threats.

− The City Auditor would prepare a Threat Matrix based upon OEM's input. The Threat Matrix would be used to prepare the Vulnerability Assessment for the threats identified.

− Based on the assessment of OEM's vulnerability, the City Auditor would prepare a report identifying those threats for which OEM has either no controls or only inadequate controls, including and identifying those controls which are being revised or developed. The City Auditor would recommend in his report that the Administration implement additional controls or procedures to address those areas of potential vulnerability or exposure.

− The City Auditor would subsequently design and execute an audit program to test compliance with those OEM controls or procedures that are assessed as significant. The results of this audit process may result in a subsequent City Auditor report to the City Council.

See Appendix C for the memorandum discussed above in its entirety. This report discusses the status of preparing the Threat Matrix and Vulnerability Assessment based upon OEM's response.

Risk Assessment (Risk And Threats Analysis)

The purpose of risk assessment (risk and threats analsysis) is to identify the threats facing the program under audit and identify the <u>internal controls</u> the

program managers have implemented to prevent, eliminate, or minimize the threats. A "threat," in the context of risk assessment, is an unwanted event or occurrence. "Internal controls,"[2] on the other hand, are the organizational structure and procedures that help program managers forestall the three situations that can degenerate into crisis or chaos; namely, overspending, a failure of operations, and violations of law.

The rationale for conducting the risk assessment is to allow auditors to limit testing and focus on those areas most vulnerable to noncompliance and abuse. The extent of audit testing is directly related to an assessment of the activity's degree of vulnerability. The higher the vulnerability, the more extensive the audit testing needs to be, and vice versa.

In conducting the risk assessment of OEM, we first prepared a list of threats associated with OEM activities and functions. We then requested OEM to add any threats they believed existed that were not on the list we provided and to identify the existing internal controls to mitigate the threats. Once a complete response is received on each threat, we will summarize the inter-relationship between identified threats and OEM's representation of its internal controls and prepare a Risk Matrix. By reviewing written procedures and other OEM documents, we will determine whether those internal controls that appear to be significant are adequately documented. Absent adequate documentation, we will obtain OEM's version of how those significant internal controls are intended to work. We will then assess whether OEM's existing internal controls are sufficient and adequate to prevent, detect, or correct those instances when threats actually occur. Finally, by

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[2] Government Auditing Standards define internal controls as follows: "[Internal Controls include] the plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports."

testing, interviewing, observing, and analyzing, we will determine whether OEM's significant internal controls are in place and functioning as intended.

The end result of risk assessment is the identification of those threats for which no internal controls or for which insufficient internal controls are in place. By informing management of these non-existent, insufficient, or non-functioning internal controls, we alert management to those threats that expose the City to risk. Thus, management can design, document, and implement controls to forestall any future unwanted consequences.

OEM'S Programs, Operations, And Activities

Before conducting a risk assessment, the City Auditor's Office performs a preliminary survey of the entity to be audited. The purpose of the preliminary survey is to:

- Define the audit assignment.

- Gather historical, organizational, and financial information that will help to familiarize the auditor regarding the audit subject, provide the background data for the audit report, facilitate subsequent risk assessment and testing procedures.

- Identify the laws, regulations, and authoritative standards that may need to be tested for compliance.

Based upon our preliminary survey, we identified the following programs, operations, and activities for subsequent risk assessment.

General

According to the 1992-93 Proposed Operating Budget, OEM's mission is as follows:

> *To assure a sustainable city for future generations by involving San Jose's diverse residential and business communities in practical programs designed to conserve resources, protect public health, and enhance the environment.*

Source Reduction And Recycling Element

State Assembly Bill 939 (AB 939) was passed on September 29, 1989, and requires each county to develop a county-wide, integrated waste management plan. It also requires all municipalities to divert 25 percent of their solid waste from landfill disposal by January 1, 1995. By the year 2000, 50 percent must be diverted.

The City of San Jose has developed its Source Reduction and Recycling Element (SRRE) which defines how the City will accomplish the diversion goals discussed above. The SRRE describes how it will meet the diversion percentage by outlining its goals in the source reduction, recycling, composting, special waste, and education and public information areas.

Waste Reduction Strategy

The Waste Reduction Strategy directs the OEM's recycling policy during the current fiscal year. Waste reduction goals, timelines, and funding levels are described in the Waste Reduction Strategy. The SRRE also discusses waste diversion objectives; however, the SRRE extends the planning horizon of the annual Waste Reduction Strategy to the year 2000.

Water Resource Management Strategy

The Water Resource Management Strategy (Strategy) integrates the City's various water issues and discusses its policy and action plan in this area. The key issues in the Strategy are:

- Long-Term Water Supply;
- Wastewater Flow Reduction Measures;
- Wastewater Quality Measures; and
- Water Efficiency Measures.

The main focus of the Strategy is the Wastewater Flow Reduction Measures section. This section discusses the measures that would allow the City to achieve a wastewater flow reduction of 12 million gallons a day by 1996.

Household Hazardous Waste Element

Assembly Bill 2707 (AB 2707) requires that each city, and the county for the unincorporated areas, characterize and quantify its household hazardous waste stream and develop plans for safe collection, recycling, treatment, and disposal of hazardous wastes generated by its households. The Household Hazardous Waste

Element meets this requirement and describes the City of San Jose's goals and objectives in this area.

Market Development Strategy

The City's Market Development Strategy focuses on five general categories for market development activities. Those five areas are Contingency Planning, Economic Development, Legislation, Procurement, and Incentives.

Contract Management

OEM generally has three types of contracts: employee contracts, consulting services contracts, and service contracts. OEM is largely responsible for significant contracts like the garbage collection and yard waste collection contracts. In addition, OEM is currently working on the Recycling Plus! garbage collection and recycling contract award process, which will become effective on July 1, 1993.

Community Relations

According to the 1992-93 Proposed Operating Budget, the program purpose and description for Community Relations is as follows:

Implement and evaluate environmental communications programs that will assist in protecting and enhancing the quality of life in San Jose. Emphasis is on the achievement of specific, practical environmental initiatives through increased citizen and business participation in recycling, water and energy efficiency, and safe handling, storage, and disposal of toxic products. Community Relations will maintain a customer service orientation, ensure access by diverse sectors to the

*public decision-making process, educate the public on how to protect
and wisely use natural resources, and enhance the City's identity as an
environmental leader locally and nationally.*

Policy Development And Planning

According to the 1992-93 Proposed Operating Budget, the program purpose
and description for Policy Development and Planning is as follows:

*Conduct long-range planning for the City's environmental strategies
and programs in accordance with Council's Environmental Policies.
Develop prioritization criteria for OEM's strategies and programs
which provides guidance for program development and the allocation
of OEM's budget resources. Conduct monitoring procedures to
evaluate performance of OEM's implementation programs. Analyze
State and Federal environmental legislation for municipal
implications, and prepare recommendations on legislative priorities
related to environmental issues.*

Technical Services

According to the 1992-93 Proposed Operating Budget, the program purpose
and description for Technical Services is as follows:

*Provide services and assistance to City Departments and the
Redevelopment Agency for environmental policies and programs
prescribed by the City Council, including Energy and Water
Conservation. Develop and monitor programs to assure City
compliance with environmental investigations and cleanup activities.*

Residential Services

According to the 1992-93 Proposed Operating Budget, the program purpose and description for Residential Services is as follows:

> *Enable the residents of San Jose to protect their environment and conserve natural resources by providing opportunities to recycle, conserve water and energy, and safely dispose of solid and household hazardous waste. Provide assistance and advice to residents regarding environmental services.*

Commercial Services

According to the 1992-93 Proposed Operating Budget, the program purpose and description for Commercial Services is as follows:

> *Serve San Jose's businesses by providing the information and incentives needed to adopt cost-effective resource conservation practices. Division programs include: Demand Side Bid, Cogeneration, IDEAS, Financial Incentives, Water Conservation Guidebooks, New Construction Water Conservation Guidelines, Recycling Technical Assistance and Recycling Market Development.*

Management

According to the 1992-93 Proposed Operating Budget, the program purpose and description for Management is as follows:

> *Provide overall direction to ensure achievement of the Office of Environmental Management's objectives through appropriate planning, organizing, coordinating, and controlling of resources and processes. Serve as the central coordinating unit for inter-*

departmental efforts to respond to City-wide, multi-departmental environmental issues.

SCOPE AND METHODOLOGY

The City Auditor's preliminary assessment provides information on the status of the threats identified during risk assessment, based on the draft responses received from OEM on April 13, 1992, and May 15, 1992, as discussed in detail under Finding I.

FINDING I

A PRELIMINARY ASSESSMENT OF THE
OFFICE OF ENVIRONMENTAL MANAGEMENT'S
<u>INTERNAL CONTROL STRUCTURE</u>

In a memorandum dated October 1, 1991, the Acting Director of OEM recommended that the City Council *". . . direct the City Auditor's Office to modify its workplan and immediately begin a "Risks and Threats Analysis" based on the new Office of Environmental Management's organizational structure."* On October 22, 1991, the City Council directed the City Auditor's Office to conduct the Risk and Threats Analysis[3] OEM requested. The City Auditor's Office completed a preliminary survey of OEM on December 2, 1991, and on January 15, 1992, requested the Acting Director of OEM to respond to a list of threats. On April 13, 1992, OEM provided the City Auditor's Office with a draft response to the list of threats. On May 15, 1992, OEM provided the City Auditor's Office with a second draft response to a portion of the list of threats. As of June 5, 1992, OEM has not provided a final response due to competing priorities and the on-going evaluation of a potential reorganization of environmental services City-wide. Because OEM's draft responses were not complete and OEM did not adequately respond to several identified threats, the City Auditor's Office has requested OEM to expand upon and/or clarify some of their responses to the list of threats.

The City Auditor's Office has completed a preliminary assessment of OEM's internal control structure based on OEM's draft responses to the list of threats. The City Auditor's preliminary assessment of OEM's internal control structure may change when OEM provides its final response.

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[3] See Page 3 for a definition of Risk Assessment (Risk and Threats Analysis).

Based on OEM's draft responses to the list of threats, the City Auditor's Office has determined the following:

- There are 23 valid threats OEM will consider addressing as soon as possible with existing resources;

- There are 21 threats that are not threats currently, but for which OEM will need to develop controls in the future;

- There are 22 threats for which OEM has informal controls in place to mitigate or eliminate the threat; therefore, OEM needs to formalize and document the controls;

- There are 77 threats for which OEM has documented the controls in place, but the City Auditor's Office needs to perform additional audit work in order to determine that the controls are working as intended;

- There are 26 threats that relate to environmental management, yet do not appear to be the responsibility of OEM;

- There are 78 threats for which the City Auditor's Office needs additional information from OEM in order to complete the preliminary assessment; and

- There are 2 threats on which the City Auditor's Office disagrees with OEM's assessment of the threats.

To give the proper attention to OEM's response to the list of threats, the Acting Director of OEM has assigned staff to a Risk and Threats Task Force for the purpose of developing controls to address identified threats. In order to complete the Risk and Threats Analysis that the City Council directed, OEM should refer this preliminary assessment to the Risk and Threats Task Force as a basis for completing its mission and develop and implement controls and procedures to address agreed upon threats.

The following is the status of OEM's internal control structure for the identified threats.

INTERNAL CONTROL STATUS

Threat is valid and OEM will consider addressing the issue as soon as possible with existing resources.

THREATS

General

OEM staff does not understand the information that consultants generate for OEM projects or programs.

Source Reduction And Recycling Element

Source Reduction - Instructional and promotional alternatives, economic incentives and rate structure modifications, waste exchanges, and City regulatory programs do not produce source reductions.

Market Development Strategy

The City fails to identify alternative uses for materials with weak markets.

Contract Management

Contract Monitoring - After the contract monitoring system is completed, the person assuming the responsibility will not be sufficiently qualified or trained to perform those duties.

Contract Monitoring - Consultants perform tasks that OEM staff should perform.

Policy Development And Planning

OEM-Developed Strategic Plans - Are not adequately developed.

OEM-Developed Strategic Plans - Are not developed in a timely fashion.

OEM-Developed Strategic Plans - Do not adequately address all legislative requirements.

OEM-Developed Strategic Plans - Are not realistic and are not implemented.

OEM-Developed Strategic Plans - Do not clearly define goals for each program.

Participation of Other City Entities or Persons in Development of Strategic Plan - Their role is unclear.

Participation of Other City Entities or Persons in Development of Strategic Plan - They have not approved the plan.

Participation of Other City Entities or Persons in Development of Strategic Plan - The budget of the participating city entity does not reflect the strategy that was adopted.

The strategies developed will be unrealistic and not practical to implement within the City budget restraints.

The strategies developed are not cost-beneficial to the City or its citizens.

The strategies may be anti-business and not compatible with a strategy to attract and retain businesses.

The Overall Sustainable City Strategy - Will not ensure program consistency.

The Overall Sustainable City Strategy - Will not be integrated into the Operating Budget by fall 1993.

Priorities - There are no criteria established for setting priorities.

Priorities - OEM's work load is too demanding and not focused.

Priorities - There are no established criteria for setting priorities for present work load in order to determine allocation of resources.

Priorities - There is inadequate staffing to perform the work load that is agreed upon with the Environmental Committee.

Commercial Services

IDEAS Program - The report provided is incomplete.

INTERNAL CONTROL STATUS

Not a threat currently, but OEM will need to develop controls in the future.

THREATS

Source Reduction And Recycling Element

Recycling - Residential and multi-family dwelling participation does not increase.

Recycling - Commercial recycling participation does not increase.

Recycling - The types of materials the commercial sector recycles are not increasing.

Composting - The City fails to divert at least 52 percent in the short-term and 74 percent in the long-term of the commercial and residential yard and wood waste stream.

Special Wastes - Existing programs that divert recyclable special wastes from landfilling are discontinued.

Special Wastes - The City fails to provide environmentally safe management or disposal of special wastes that cannot be recycled.

Special Wastes - The City fails to increase the recovery of recyclable special wastes from the solid waste stream.

Education and Public Information - The City fails to expand existing public education and information programs to address source reduction, composting, recycling, and household hazardous waste.

Education and Public Information - The City fails to create public participation in local collection programs and recycling programs and events.

Waste Reduction Strategy

The City does not reduce waste disposal by 25 percent by January 1, 1995, as required in AB 939.

The City does not reduce waste disposal by 50 percent by the year 2000 as required in AB 939.

The City does not meet its self-imposed goal of a 38 percent reduction by 1992-93.

Curbside Recycling - Participation and recovery rates do not increase.

Curbside Recycling - Scavenging and contamination set-outs are not reduced.

Curbside Recycling - Projected tons collected for recycling are not met.

Curbside Recycling - The City fails to meet multi-unit recycling goals.

Model programs and technical assistance fail to stimulate the private sector to provide recycling services and opportunities to the commercial/industrial sector of the City.

The City fails to expand local recycling manufacturing activities.

The City fails to attract new manufacturers who utilize secondary materials in their processes.

Market Development Strategy

The City fails to expand existing local recycling manufacturers or attract new manufacturers to the area who utilize post-consumer recyclables as feed stock.

Commercial Services

Energy Management - The City does not meet the goal of reducing energy use by 10 percent.

INTERNAL CONTROL STATUS

The controls that OEM has in place to mitigate and/or eliminate the threat are informal; therefore, OEM needs to formalize and document the controls.

THREATS

General

There is a lack of coordination between OEM and other City entities or persons with regards to environmental projects.

OEM is duplicating the efforts of other City entities or persons.

OEM's responsibilities overlap other City entities or persons.

OEM has not developed monitoring or evaluation measures to review and document the effectiveness of its various programs.

Source Reduction And Recycling Element

Recycling - Reuse collection practices do not optimize the economics of recycling operations.

Education and Public Information - The City fails to publicize and encourage business community involvement.

Water Resource Management Strategy

Drought Response - The Drought Response Task Force is not adequately coordinated with other City entities or persons.

Market Development Strategy

The City is unable to withstand fluctuations in the market value of materials collected in the City recycling programs.

Contract Management

Contract Monitoring - Required reports are not submitted.

Contract Monitoring - Contract monitoring documentation is not produced or maintained.

Contract Monitoring - OEM staff is not qualified to assess the quality of consultant's work.

Efficiency and Effectiveness - OEM's use of contract employees is excessive.

Efficiency and Effectiveness - Consultants for projects are costly and not effective.

Community Relations

Collateral Material - The number of brochures/publications/videos printed is greater than the amount actually needed.

Residential Services

Yard Waste Collection - Contractor fails to perform.

Yard Waste Collection - OEM does not coordinate with other City entities for the use of yard waste by-products.

Yard Waste Collection - The contract billing system is too complicated and not easily monitored.

Commercial Services

Recycling - OEM is unable to respond to queries from businesses.

Recycling - OEM fails to get recycling information to schools.

Recycling - OEM is unable to respond to queries from schools.

IDEAS Program - Specific Redevelopment Agency targets are not met.

Case Study - OEM is not targeting the right businesses for distribution.

INTERNAL CONTROL STATUS

The controls that OEM has in place are documented, but the City Auditor's Office needs to perform additional audit work in order to determine that the controls are working as intended.

THREATS

General

OEM's mission and responsibility are not clearly defined.

OEM is performing duties above and beyond its primary function of providing information on policy development to the City Council.

OEM staff is not qualified to perform the various duties assigned to them.

Source Reduction And Recycling Element

Source Reduction - Citizens are not educated about source reduction activities.

Source Reduction - Residents continue to generate yard waste and do not adopt backyard or on-site composting practices.

Waste Reduction Strategy

Curbside Recycling - The City does not collect approximately 300,000 gallons of motor oil in 1991-92.

Recycling incentives, service rates, fees, and taxes, along with requirements in contracts, permits, and ordinances, fail to communicate the City's recycling goals to the private sector.

The public is uninformed on the proper disposal of hazardous household materials and alternatives to the use of these materials.

Residents cannot turn in hazardous household materials for recycling or proper disposal.

The market development staff fails to work with the Planning Department, the Office of Economic Development, and the Redevelopment Agency to provide technical recycling information to prospective manufacturers.

Water Resource Management Strategy

Ultra Low Flow (ULF) Toilet Program - Financial rebates are excessive, incorrect, or inappropriate.

Financial Incentives Program - Money is given to facilities that do not make process changes resulting in reduced water flow.

Financial Incentives Program - Program funds are spent inappropriately on unauthorized projects.

Drought Response - The Drought Response Task Force lacks direction or purpose.

Outdoor Water Use - The outdoor water use requirements of the Landscaping for Water Conservation Legislation (AB 325) will not be met.

Household Hazardous Waste Element

The county-wide Household Hazardous Waste (HHW) program will fail to effectively and safely collect, recycle, treat, or dispose of the household hazardous wastes from the residents of the City.

The county-wide HHW program will not adequately coordinate the collection services and education programs for the residents of the City.

The City will not receive a report summarizing: the total amount of household hazardous wastes diverted; amount recycled; number of residents utilizing the programs; amount recycled; and cost per ton, yard, or drum to divert household hazardous wastes.

Some communities or neighborhoods will not receive any service.

An annual survey to assess participant satisfaction will not be made, and problems will not be identified.

Monitoring, evaluating, and reporting responsibilities will not be adequately coordinated with various City and county offices.

OEM staff responsibilities for the HHW program are not clear and/or well-coordinated.

The City's handling of household hazardous wastes results in increased liability risks.

The City fails to expand curbside motor oil collection programs.

The number of households eligible and number of households participating in curbside oil collection will not be measured and/or reported annually.

The California Integrated Waste Management Board (CIWMB) will find that the City failed to implement its Household Hazardous Waste Element, and the City will be issued an order of compliance.

Contract Management

Contract Monitoring - OEM is unaware that contract requirements are not being met.

Contract Monitoring - OEM is unaware of project overruns.

Contract Monitoring - OEM does not have adequate in-house expertise to monitor contracts.

Contract Monitoring - Contractor calculations are inaccurate.

Contract Monitoring - Contractors are not providing services in accordance with contract provisions.

Contract Monitoring - Contractors are not providing the work specified in contracts.

Contract Monitoring - Contracted work is not completed on schedule.

Contract Language - OEM contracts are ambiguous and subject to misinterpretation.

Contract Language - Contracts do not contain the necessary provisions to comply with federal and state regulations.

Contract Language - Contracts contain provisions that conflict with City Council policies.

Contract Language - Contracts do not contain all agreements made between the City and contractors.

Contract Language - Contracts do not define what is a change in scope, extra work, or an extension of time.

Contract Language - Contracts do not address City and/or contractor delays.

Contract Language - Contractors continue to perform work for OEM after contract amounts are fully expended.

Contract Language - Necessary contract amendments are not prepared.

Task Orders - Task orders are not approved in advance of work being performed.

Task Orders - Task orders do not have proper authorizations.

Task Orders - Once authorized, task orders are not monitored and/or controlled.

Task Orders - Contractor charges for task order work exceed the approved task order amount.

Task Orders - Contractors are not performing the work specified in the task order.

Insurance Requirements - Insurance requirements are not included in contracts.

Insurance Requirements - The certificates of insurance contractors submit do not meet contract requirements.

Budgets - Actual expenditures exceed budgeted amounts.

Budgets - Budget information does not reflect budget changes.

Efficiency and Effectiveness - OEM has no means to assess consultant or contractor performance.

Efficiency and Effectiveness - Contract employees are not productive.

Community Relations

Collateral Material - The cost of producing brochures/videos is excessive.

Collateral Material - The cost of distributing brochures/videos is excessive.

Collateral Material - A brochure/video is poorly produced or does not effectively communicate the intended message.

Collateral Material - A brochure/video does not produce the desired result.

News Media Coordination - OEM distributes environmental information that is not accurate or authoritative.

News Media Coordination - OEM does not coordinate media inquiries to ensure that information given is correct, consistent, and authoritative.

Policy Development And Planning

Policy Development/Evaluation - Staff is not sufficiently trained, educated, or qualified to conduct program evaluations.

Policy Development/Evaluation - Reports are not reviewed consistently or in a timely manner.

The Request for Proposal (RFP) process is not conducted in accordance with standard practices.

The RFP does not contain adequate provisions to protect the City.

OEM staff is not qualified to understand and/or monitor the results of a consultant's work on an RFP.

All waste reduction initiatives are not included in the garbage RFP.

Technical Services

LUST Sites - The City fails to identify all City-owned storage tanks for investigation and clean-up.

LUST Sites - Identified leaks are not corrected.

LUST Sites - Regulatory standards are not adhered to for clean-up activities.

Residential Services

Yard Waste Collection - The City overpays the contractor.

Yard Waste Collection - OEM staff is unqualified to monitor the contract.

Commercial Services

Energy Management - There is inadequate coordination between OEM, Planning, Housing, and developers.

Energy Management - OEM is not giving necessary information to developers.

Case Study - OEM is not distributing case study results to various companies.

Management

Revenue Verification - OEM's verification of the calculations is wrong.

Revenue Verification - OEM fails to verify calculations.

Revenue Verification - Identified calculation errors are not followed up.

Operating Budget - OEM uses the wrong funding source for a project.

Operating Budget - Does not meet City Charter standards.

INTERNAL CONTROL STATUS

Threat relates to environmental management, yet does not appear to be the responsibility of OEM.

THREATS

General

The City does not enforce environmental ordinances.

Source Reduction And Recycling Element

Source Reduction - City procurement policies are not modified to encourage City usage of recycled materials.

Source Reduction - The industrial and commercial sectors continue to use inefficient materials.

Waste Reduction Strategy

The Purchasing Division and other City departments do not buy recycled materials.

Water Resource Management Strategy

Water reclamation projects will not result in new and reliable water supply sources.

Nonpotable Water Reclamation Project - Will not provide a supply of 9 to 10 million gallons per day of nonpotable water by late 1996.

Nonpotable Water Reclamation Project - The environmental impact report will not be approved.

Nonpotable Water Reclamation Project - The water distribution system will not be well-coordinated to provide water distribution throughout the Golden Triangle Area.

Nonpotable Water Reclamation Project - The Potable Reclamation feasibility study will not show viable potable reclamation sources to support the goals in the South Bay Action Plan.

Wastewater Flow Reduction Measures - The City will not achieve a wastewater flow reduction of 12 million gallons per day by 1996.

Wastewater Flow Reduction Measures - The City will have to pay for a new treatment facility.

Wastewater Flow Reduction Measures - The water conservation program will not be cost-effective and will not achieve ongoing wastewater flow reduction goals.

National Pollutant Discharge Elimination System (NPDES) Team - City management is unaware of the NPDES Special Projects Team's activities or accomplishments.

NPDES Team - City management has no means to ensure the success of the NPDES Special Projects Team.

NPDES Team - The NPDES Team fails to achieve its goals.

Waste Minimization (Source Control) Program - Permitted industry compliance will not be improved.

Waste Minimization (Source Control) Program - A public education program to reduce toxic pollutants discharged to the sewers will not be effective.

Waste Minimization (Source Control) Program - Nonpermitted industries that significantly contribute to metals loading to the Water Pollution Control Plant will not be regulated.

Waste Minimization (Source Control) Program - The City will not comply with the additional requirements for the NPDES permit reissuance.

Waste Minimization (Source Control) Program - The City will not comply with additional Regional Water Quality Control Board requirements for source control.

Nonpoint Source Pollution Control Program - The City will not meet EPA requirements for nonpoint source pollution.

Market Development Strategy

The City has no mechanisms in place to divert recycled materials to other uses once the value of the materials falls below established standards.

The City fails to influence the state legislature to strengthen the economics of recycling.

The City fails to expand the local demand for recycled products through the improvement of City procurement practices.

Residential Services

Yard Waste Collection - Yard waste recycling by-products are not used in the most beneficial manner.

Commercial Services

Recycling - OEM fails to publicize City Hall's recycling program.

INTERNAL CONTROL STATUS

The City Auditor's Office needs additional information from OEM in order to complete the preliminary assessment.

THREATS

General

The City fails to comply with all environmental sections of the Municipal Code.

Source Reduction And Recycling Element

Source Reduction - The City continues to use non-recyclable materials.

Source Reduction - The City is not replacing disposable materials and products with reusable materials and products.

Source Reduction - The City is not encouraging product substitution toward less toxic materials.

Recycling - The City fails to divert the inert solids that City departments and capital improvement projects generate.

Waste Reduction Strategy

The City fails to identify markets for retail sales of compost and biomass.

Water Resource Management Strategy

Ultra Low Flow (ULF) Toilet Program - The implementation of the program is not adequately coordinated.

Ultra Low Flow (ULF) Toilet Program - Costs are excessive.

Ultra Low Flow (ULF) Toilet Program - The flow reduction goals will not be met.

Residential Water Audits - The residential water audits do not reduce water use.

Residential Water Audits - The consultant's report on the pilot project for the single family water audits is not accurate and/or complete.

Technical Assistance Program - The technical assistance program does not produce any energy or water savings.

Technical Assistance Program - The technical assistance program is not cost-effective.

Financial Incentives Program - Program costs are excessive.

Financial Incentives Program - Reduction goals are not met.

<u>Household Hazardous Waste Element</u>

An overall evaluation on the adequacy of the household hazardous waste collection services will not be made.

The county-wide HHW program and City-sponsored programs are under-utilized, ineffective, and too costly.

Household hazardous waste will not be kept out of landfills, sanitary and storm sewers, and waterways.

Generation of household hazardous waste will not be reduced through source reduction efforts in the 1991-1995 period.

Landfill disposal of household hazardous waste will not be reduced through source reduction effort by 75 percent for the City in the 1991-1995 period.

Landfill disposal of household hazardous waste will not be further reduced or eliminated for the City in the 1996-2000 period.

Contract Management

Contract Monitoring - Procedures do not specify what contracts should be monitored, how they should be monitored, or who should do the monitoring.

Contract Monitoring - The City Council, the Environment Committee, and City Administration are not kept apprised of contract status and/or performance information.

Contract Monitoring - OEM staff does not have sufficient knowledge of contracting practices to assess contractor services provided.

Contract Language - Contracts do not address unexpected or uncontrollable events, their remedies, or effects.

Contract Language - Contracts do not require contractors to notify the City of any potential liability on a timely basis.

Task Orders - Task orders represent work actually covered under the scope of the base contract or a previous task order.

Insurance Requirements - Contractors are not submitting certificates of insurance prior to the commencement of work.

Insurance Requirements - Contractor insurance policies expire before projects are completed.

Performance Bond Requirements - Performance bond requirements are not included in contracts.

Performance Bond Requirements - Contractors are not submitting performance bonds prior to the commencement of work.

Performance Bond Requirements - Performance bonds do not meet contract requirements.

Performance Bond Requirements - Performance bonds are not adequate to cover increases in work due to change orders.

Efficiency and Effectiveness - OEM cannot assess the efficiency or effectiveness of a project or program.

Community Relations

Collateral Material - The information included in a brochure/video is not accurate.

Policy Development And Planning

Legislative Ordinance Unit - OEM is duplicating the efforts of other City entities or persons.

Legislative Ordinance Unit - OEM is not coordinating the drafting of City ordinances with necessary City entities or persons.

Legislative Ordinance Unit - Public hearings are not adequately coordinated with other City entities or persons.

Legislative Ordinance Unit - City requirements for public hearings, such as the notification process, are not met.

Policy Development/Evaluation - OEM does not implement Policy Development recommendations.

The Overall Sustainable City Strategy - Does not reflect the Environment Committee/City Council priorities.

Technical Services

City Projects, Program Development, Technical Planning, Public/Administrative Activities - OEM does not communicate or correspond with regulatory agencies.

City Projects, Program Development, Technical Planning, Public/Administrative Activities - OEM has no means of measuring productivity in these areas.

City Projects, Program Development, Technical Planning, Public/Administrative Activities - OEM does not know what is being done in these areas.

City Projects, Program Development, Technical Planning, Public/Administrative Activities - OEM is not monitoring the programs that it should monitor.

City Projects, Program Development, Technical Planning, Public/Administrative Activities - OEM is not apprised of activities being performed or their progress.

City Projects, Program Development, Technical Planning, Public/Administrative Activities - OEM reviews of various documents are not consistent, efficient, or effective.

City Projects, Program Development, Technical Planning, Public/Administrative Activities - The City does not have a comprehensive list of the environmental regulations that affect the City or which City entity or person is responsible for these environmental regulations.

LUST Sites - The City fails to submit quarterly reports to the Santa Clara Valley Water District Fuel Leak Division.

LUST Sites - Potential recoveries from private property owners are not pursued.

Litigation Cases - The City is exposed to litigation due to inadequate environmental monitoring.

Litigation Cases - Available monetary recoveries are not pursued.

Litigation Cases - Cost of clean-up is excessive.

<u>Residential Services</u>

Yard Waste Collection - The City fails to coordinate the collection of yard waste from other City jurisdictions and school facilities.

Yard Waste Collection - The City does not receive all of the revenues to which it is entitled.

Energy Management - The City does not achieve the conservation goal of 10 percent of the projected energy use in all sectors by the year 2000.

Energy Management - OEM does not take full advantage of grant funding from various state or federal sources.

Energy Management - OEM is not aware of all potential state and federal sources of grant funding.

<u>Commercial Services</u>

Recycling - OEM fails to get recycling program information to targeted businesses.

Recycling - The City fails to maximize all recycling opportunities.

Market Development - OEM does not select the best projects for development/pilot programs.

Market Development - Pilot studies are not well-designed.

Market Development - Pilot study results are inaccurate, inconclusive, and misleading.

Market Development - Pilot studies are too costly and not timely.

Energy Management - The program does not meet established targets/objectives.

IDEAS Program - OEM has not identified all the developers or architects who should receive a report.

IDEAS Program - The City is not referring as many projects as it should to PG&E.

Outdoor Water Use Audits - There are no established criteria for selecting sites.

Outdoor Water Use Audits - Personnel are not adequately trained to perform the audits.

Outdoor Water Use Audits - Companies are not implementing specific recommendations.

Outdoor Water Use Audits - Follow-up evaluations are not conducted in a timely manner, and the follow-up results are not accurately calculated.

Outdoor Water Use Audits - Follow-up results are misinterpreted.

Outdoor Water Use Audits - Audits are too costly.

Case Study - OEM is providing assistance to the wrong companies.

Case Study - The City is paying for alleged reduced sewer flow that is not actual.

<u>Management</u>

Operating Budget - The budget does not reflect all authorized projects.

Operating Budget - Mid-year additions are not properly reflected in the budget.

Operating Budget - Projects rebudgeted in subsequent years are not reflected in the budget.

INTERNAL CONTROL STATUS

The City Auditor's Office disagrees with OEM's assessment of the threats.

THREATS

General

It is unclear as to which City entity or person is responsible for reviewing environmental legislation, determining how the City is affected, and designating which City entity or person should take any necessary action.

The City does not comply with all state and federal environmental regulations.

RISK AND THREATS TASK FORCE

To give the proper attention to OEM's response to the list of threats, the Acting Director of OEM has assigned staff to a Risk and Threats Task Force for the purpose of developing controls to address identified threats. The scope of their assignment is to prioritize the list of threats, complete the response to the list of threats based on the prioritization, and prepare, formalize, and document internal controls for the list of threats based on the prioritization, within a reasonable period of time.

ENVIRONMENTAL SERVICES REORGANIZATION

Currently, the City Manager is reviewing all of the City-provided environmental services with the objective of assigning the delivery of those services to the best suited City entity, whether existing or new. The City Manager anticipates presenting a proposed City-wide environmental reorganization to the City Council in August 1992. Accordingly, we recommend that the City Manager ensure that the 26 threats that relate to environmental management, yet do not appear to be the responsibility of OEM, be made a part of any proposed environmental services reorganization.

CONCLUSION

Based on OEM's draft responses to the list of threats, the City Auditor's Office has determined the following:

- − There are 23 valid threats OEM will consider addressing as soon as possible with existing resources;

- − There are 21 threats that are not threats currently, but for which OEM will need to develop controls in the future;

- − There are 22 threats for which OEM has informal controls in place to mitigate or eliminate the threat; therefore, OEM needs to formalize and document the controls;

- There are 77 threats for which OEM has documented the controls in place, but the City Auditor's Office needs to perform additional audit work in order to determine that the controls are working as intended;

- There are 26 threats that relate to environmental management, yet do not appear to be the responsibility of OEM;

- There are 78 threats for which the City Auditor's Office needs additional information from OEM in order to complete the preliminary assessment; and

- There are 2 threats on which the City Auditor disagrees with OEM's assessment of the threats.

RECOMMENDATIONS

We recommend that the Office of Environmental Management:

Recommendation #1:

Refer this preliminary assessment to the Risk and Threats Task Force as a basis for completing its mission. (Priority 3)

Recommendation #2:

Develop and implement controls and procedures for agreed upon threats for which OEM has no controls in place. (Priority 3)

We also recommend that the City Manager:

Recommendation #3:

Ensure that the 26 threats that relate to environmental management, yet do not appear to be the responsibility of OEM, be made a part of any proposed environmental reorganization. (Priority 3)

Finally, we recommend that the Finance Committee and City Council:

Recommendation #4:

Direct the City Auditor's Office to include in its 1992-93 Workplan a final assessment of the Office of Environmental Management's internal control structure, including any audit work necessary to determine that controls are working as intended. (Priority 3)

Click On The Appropriate Box To View Item

Administrator's Response

Appendix A Appendix B Appendix C